



ALTAI

RESOURCES INC.

TO OUR SHAREHOLDERS

The audited consolidated financial statements for the year ended December 31, 1998 and the technical summaries of our main properties are presented in this annual report.

THE YEAR IN REVIEW

During 1998 the prices of many commodities including gold, oil and copper sank to multi-year lows. At the date of this annual report, gold was still trading near its 18 years low. As a result, many mining companies operated at loss and greatly reduced their expenditures on exploration.

Although we could not foresee the very depressed commodity prices, we took the necessary action early in the year by further cutting back on exploration expenditures and by reducing our landholding costs. We dropped some of our grass roots stage mining properties in Peru and retained only those which have higher exploration potential.

Despite the difficult conditions in the industry, we were successful in joint venturing two of our properties. The Negros Island sulfur property in the Philippines was optioned by Mindex Resources Development Inc., a wholly owned subsidiary of Mindex ASA of Oslo, Norway. The Rodeo gold property in Peru was optioned by Minera ABX Exploraciones S.A., a wholly owned subsidiary of Barrick Gold Corporation. Both options involve future cash payments to Altai as payments against future revenues.

THE YEAR AHEAD

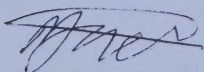
In the prevailing poor market for commodities and mining equities, grass roots type of exploration projects are not favoured, therefore we will concentrate our efforts on our more advanced properties.

Our task is to upgrade the reserves and resources of our more advanced properties and to bring them to the feasibility stage. In this regard, the Lahuy Island gold property in the Philippines is one of the higher priority projects. Although plan to advance the Lahuy Island property is temporarily delayed, we shall start work when the financing environment improves. The high grade nature of the vein type deposits at Lahuy augurs well for its future.

We do not believe that there will be further deterioration in the base metal prices, they will be either stable or improve. Economic cycles and other cyclical factors related to metal production and consumption will bring better metal and gold prices and better equity prices for mining and exploration companies. These, together with cyclical factors, should help our share price performance which will allow us to do a financing with less share dilution. We are confident that in the near future we will be able to joint venture other properties and close the sale of the Ticao limestone property.

I would like to take this opportunity to thank our staff, consultants and shareholders for their continued support of this Company.

On Behalf of the Board



Dr. Niyazi Kacira
President and CEO
April 30, 1999

MAIN PROPERTIES

PHILIPPINES

Altai Resources Inc. incorporated Altai Philippines Mining Corporation ("Altai Philippines") at the beginning of 1996. Altai has a 40% equity interest in the Philippine company and has a direct 10% Net Smelter Return (NSR) royalty interest in all properties in which Altai Philippines has an interest. Alternatively, Altai may elect to give up its 10% NSR interest in return for building and owning 80% of the ore processing facilities; in such event, Altai would buy the ore from Altai Philippines by paying a royalty equal to 10% of the direct mining costs of the ore delivered to the processing facilities. Altai Philippines would subsequently have 20% ownership of the processing plant.

In the event that properties are joint ventured, leased or sold to a third party interest(s), 60% of residual proceeds will accrue to Altai until it recovers its expenditures and 40% to Altai Philippines. After recovery of Altai's expenditures, proceeds will be shared equally.

MABULAO COPPER-GOLD PROPERTY, CAMARINES NORTE

This property of 17,200 hectares (43,000 acres) is one of our most valuable landholding in the Philippines. It is located in the Paracale gold mining camp in the Province of Camarines Norte, Luzon Island. The Paracale area is historically one of the most productive gold mining camps in the Philippines. The property is within a few kilometres of the National Highway which connects Manila with southeast Luzon. Mabulao occupies a 24 km long portion of a NW striking belt of Miocene age sedimentary and volcanic rocks and related intrusives which host numerous skarn, porphyry copper and epithermal gold occurrences.

There are two small past producing gold mines, the Royal Paracale Mine and the Opeso Gold Mine within the property. The skarn and porphyry copper occurrences were partially tested by drilling in the past but the area has not been systematically explored for gold. The past exploration also outlined geophysical anomalies which were only partially explored. Altai found additional copper and gold occurrences and outlined gold geochemical anomalies at the Tamisan and Submakin portions of the property. These are also attractive exploration targets.

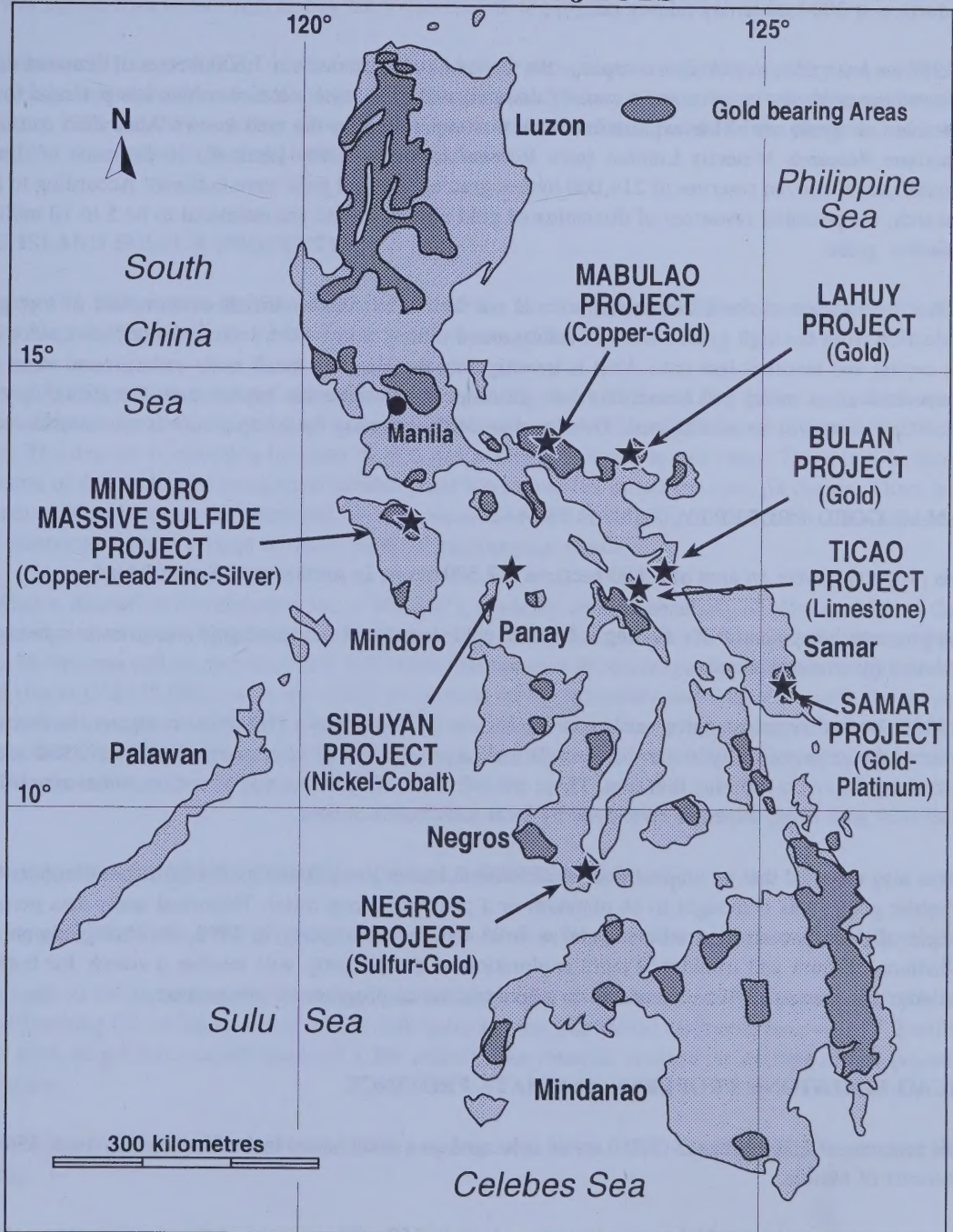
Low commodity prices and cut backs in exploration hindered our efforts to joint venture the property. Recently there are signs of positive change; exploration activities by major mining companies are increasing in the Philippines and commodity prices appear to be bottoming out. Altai is contacting again the companies which may be interested in a joint venture in the property.

LAHUY ISLAND GOLD PROPERTY, CAMARINES SUR

This property of 2,025 hectares (5,050 acres) is located on the Lahuy Island in the Province of Camarines Norte. It hosts the former gold producer (1936 - 1941), Treasure Island Mine, which was closed due to the Japanese invasion during the Second World War.

The mine produced 66,000 oz gold between 1938 and 1941. The production, about 250 tonnes/day, was derived from two veins which averaged 14 g/t gold.

PHILIPPINE PROJECTS



Map showing geographic locations of Altai Resources Inc. projects and their relative position to known gold bearing areas of the Philippine Archipelago

In 1988 Minproc Engineers Pty Ltd., an Australian consulting firm, examined the historical data and concluded that within the confines of the present underground workings there is sufficient resource for two years of production at 200 tonnes/day mining rate.

In 1987 an Australian exploration company, the Genoa Group, carried out 3,800 metres of diamond drilling and explored the gold-quartz veins and a zone of disseminated gold mineralization which has potential to host bulk mineable low grade ore. This exploration work was supervised by the well known Australian consulting firm Robertson Research Minerals Limited (now Robsearch Australia Pty Limited). In the zone of disseminated mineralization, proven reserves of 214,000 tonnes grading 2.46 g/t gold were outlined. According to Robertson Research, the potential resources of disseminated gold mineralization are estimated to be 5 to 10 million tonnes of similar grade.

Further exploration of the disseminated zone is warranted; but in the current environment of low gold price, production from the high grade veins via underground mining may be the preferred alternative since it requires less capital and involves less risk. Altai is investigating the idea of a small scale underground mine which can be operated at an initial 100 tonnes/day rate. In order to minimize the capital cost, the availability of a used processing plant will be investigated. Development of the property by joint venture is also considered.

SAMAR GOLD PROPERTY, SAMAR ISLAND

This property covers an area of 7,800 hectares (19,500 acres) in southeastern Samar Island.

The property has potential for finding a lateritic gold deposit; this type of gold occurrence is being currently exploited by artisanal miners.

In 1987, limited reconnaissance work was carried out by Minimax, a Philippine company, in this area. They reported the presence of hydrothermal breccia and large boulders of vein quartz cutting silicified and pyritized rock along the rivers draining this area. These are indicative of hydrothermal alteration which may be the source of alluvial gold being mined in river beds by local subsistence miners.

It was also reported that an unidentified white mineral was at times found by the subsistence miners who called it "white gold"; this is thought to be platinum or a platinum group metal. Historical assay data pertaining to a sample of pan concentrate presumably taken from the Samar property in 1993, indicate platinum as well as palladium, iridium and osmium. Future exploration of the property will involve a search for both gold and platinum group metals. Altai intends to do a reconnaissance program on this property.

TICAO LIMESTONE PROPERTY, MASBATE PROVINCE

This property of 1,300 hectares (3,250 acres) is located on a small island in the Masbate Province, 350 kilometres southeast of Manila.

The property hosts a large high purity limestone deposit (150 million tonnes or more) adjacent to a shale deposit at the tidewaters of Sibuyan Sea. The juxtaposition of limestone and shale provides an ideal source of raw material for the manufacture of cement. Certain portions of the limestone deposit are suitable for use as filler in paper, plastic and rubber industries.

A brief geological evaluation and sampling of the deposit was undertaken by Altai Philippines. This survey gave positive results; the shale has suitable chemical composition and low magnesium content. Subsequently, a letter of intent was signed by a consortium to buy the Ticao limestone property for US\$1 million.

The consortium made an evaluation of the limestone and shale deposit and concluded that they are suitable for cement making. It intends to exploit the deposit for this purpose. Due to uncertainties in the financial markets in Asia during 1998 and the temporary slowdown in construction activities, the sale of the property has not yet been closed but is expected to be completed in the near future.

NEGROS ISLAND SULFUR PROPERTY

This property of 1,700 hectares (4,250 acres) is located 15 km North of the city of Dumaguete, the capital of the Province of Negros Occidental, and 3 km from the tidewaters of the Visayan Sea.

The property has 58 million tonnes of mineable reserves grading about 30% sulfur in native and sulfide forms. The reserve estimate was made by previous owners and is based on more than 24,000 metres (about 80,000 feet) of drilling. The deposit is mineable by open pit and has a very low waste to ore ratio. There is a further 25 million tonnes of drill indicated resource of similar grade which was left out of the open pit design. There is an excellent potential to increase the combined reserve-resource to well over 100 million tonnes. The deposit has sufficient reserve to support a large fertilizer plant or metallurgical plants.

In 1998 Mindex Resources Development Inc. ("Mindex"), a wholly owned subsidiary of Mindex ASA of Oslo, Norway has signed an option agreement to put the property into production for 75% net profit interest (NPI), while Altai Philippines will be carried at 25% NPI. Altai Philippines will receive yearly advance royalty payments which will rise to US\$125,000/year at the fourth anniversary of the agreement and thereafter, until the property reaches a production rate of at least 50,000 tonnes/month. Mindex has the option to buy, at any time, Altai Philippine's NPI for US\$2.5 million within the first four years from the date of the option agreement and for US\$4 million thereafter.

SIBUYAN ISLAND LATERITIC NICKEL - COBALT PROPERTY

This property of 5,022 hectares (12,500 acres) is located on Sibuyan Island on the tidewaters of the Visayan Sea.

About one tenth of the aerial extent of the nickel deposit was explored in the early 1980's principally by Mitsui Mining and Smelting Co. of Japan. Based on 431 drill holes and test pits Mitsui calculated reserves of 7.2 million tonnes at 1.61% nickel (at a cut-off grade of 1.3% nickel). The material contains an average of one pound of cobalt per tonne.

Potential to increase the resources ten times in this property is excellent. Altai intends to joint-venture or lease this property.

MINDORO COPPER - ZINC PROPERTY

This property of 2,916 hectares (7,290 acres) is located in the Sipuyo Province on Mindoro Island.

The property was explored in the 1970's by Alusuisse Mining Ltd., a major European mining company. Their exploration program included sampling of mineral occurrences on the surface, soil geochemical surveys, pitting and an Induced Polarization (IP) survey.

The most important drill targets are two IP anomalies; Anomaly A with 500 metres strikelength and 50 to 150 metres width, and Anomaly D with 800 metres strikelength and 50 to 150 metres width. Anomaly A as well as the western end of Anomaly D have coincident soil geochemical anomalies. There are five other smaller IP anomalies.

In the western part of the surveyed area there are dozens of small (2 to 10 metres size) outcrops of gossan (iron oxide) and a few small outcrops of massive sulfides. Chip samples taken over 0.2 to 8 metres length of outcrops of gossan or massive sulfide assayed from trace to 13% copper, up to 8.2% zinc and 0.7% lead. Most of the gossan samples assayed 0.1 to 0.8% copper. Since in the tropical environment a significant degree of leaching of both copper and zinc is expected, these assay results are considered promising. Enrichment of gold and silver can also be expected in the oxide cap.

Around and near the gossan and massive sulfide outcrops, a 600 metres by 450 metres size area of soil geochemical anomaly with 200 to 1,000 ppm of copper, lead and zinc was outlined. In addition there are several smaller soil geochemical anomalies.

Although a recently amended mining regulation of the Philippines does not allow mining at relatively high altitudes like that of the Mindoro property, Altai retains the property hoping for a clarification or exemption from this ruling.

OTHER PROPERTY IN PHILIPPINES

Altai Philippines owns the Bulan gold property in the Sorsogon Province. The property has potential for finding a large, low grade, bulk mineable epithermal gold deposit.

CANADA

Altai has interest in three properties in Canada.

LAC ST. PIERRE GAS AND GAS STORAGE PROJECT, QUEBEC

This property of 53,000 hectares (132,500 acres) is located in the Sorel area, 100 km East of Montreal in the industrial heartland of Quebec. To date 25% of the property has been covered by seismic surveys. Twenty three potential shallow (less than 150 metres) natural gas reservoirs with a total possible volume of 30 billion cubic feet have been outlined. Two of these reservoirs have been drilled with gas discoveries. The greatest value of the reservoirs is in gas storage to take advantage of the peak/off-peak price differential in gas consumption. Altai has

49% interest in the whole property.

An option was granted to Great Legends Mining Inc. ("Great Legends"), a Montreal based private company, whereby it may earn 50% interest in the project by making exploration - development expenditures of C\$3 million and cash payments aggregating to C\$550,000 to Altai and its joint-venture partner over four years.

Up to the end of 1998 Great Legends carried out a high resolution seismic survey over permits 88PG821 and 84PG731. A total of 42 line kilometres were surveyed at a cost of C\$288,000. As a result, a shallow gas reservoir of 1.7 BCF capacity was outlined.

At the date of this annual report, Great Legends was unable to fulfil all its obligations under the option agreement. Altai is proceeding with the cancellation of the agreement. Future plans for the property include sale or joint venture of the property.

It is noteworthy that the nearby Point du Lac facility of Intragas which is a joint venture between Gas de France and SOQUIP uses a shallow gas reservoir of similar geological nature. The Intragas reservoir of 1.7 BCF was developed with eight injection/production wells. To date, the Lac St. Pierre project of Altai has 23 discreet reservoirs outlined with a total potential of 30 BCF of gas and potentially adequate for 16 BCF of storage capacity.

If a new joint venture agreement is concluded, the next phase of the program would be to drill test three or four of these structures to determine their reservoir characteristics in order to undertake a feasibility to initially develop a gas storage facility of 3 to 4 billion cubic feet. Since the Intragas facility makes use of a very similar reservoir located only one kilometre from Altai's property, the probability of successful development is high. An internal prefeasibility study completed in 1992 indicated that a storage facility, with a capacity of 3.6 billion cubic feet, will provide C\$73 million net (after recovery of preproduction expenditures) pre-tax cash flows in the first 10 years of its operations. Capacity can be increased subsequently by adding other reservoirs.

MALARTIC TOWNSHIP GOLD PROPERTY

This 50% owned property of 40 hectares (100 acres) is located 10 km northeast of the town of Malartic, Val d'Or area, Quebec. Past exploration and limited amount of underground development outlined a drill indicated geological reserve. According to a prefeasibility study prepared in 1989 by Mr. J.P. Labelle, a consultant, the drill indicated reserves in the probable plus possible categories amount to 256,000 tonnes with an uncut grade of 13.3 g/t gold and a cut grade of 6.74 g/t gold.

The property needs additional exploration to test zones with the high uncut gold grade. Altai plans to sell or lease the property.

OTHER PROPERTY IN CANADA

Altai's 100% owned Red Lake claims in Ontario are being maintained in good standing. No exploration work is being planned for this property this year.

PERU

During 1998 the following properties were eliminated from our portfolio of Peruvian mining claims: Cruz Blanca 3, Pedregal, Rio Colorado, Solitario and Shunchuco. All these properties were at the grass roots stage of exploration. In addition the area of the following properties were reduced: the Carcapata property from 3,900 to 2,000 hectares, the Victoria property from 3,200 to 2,000 hectares and the Tierra Amarilla property from 4,200 to 2,300 hectares.

At the end of 1998 Altai has the following four mining properties:

PERUVIAN PROPERTIES OF ALTAI AT THE END OF 1998

<u>Property and Commodity</u>	<u>Area of landholding</u>	
	<u>Hectares</u>	<u>Acres</u>
Carcapata (gold, silver, base metals)	2,000	5,000
Rodeo (gold)	300	750
Tierra Amarilla (gold)	2,300	5,750
Victoria (gold)	2,000	5,000
Total	6,600	16,500

TIERRA AMARILLA GOLD PROPERTY

This property is located in Northern Peru, 110 km northeast of the city of Trujillo.

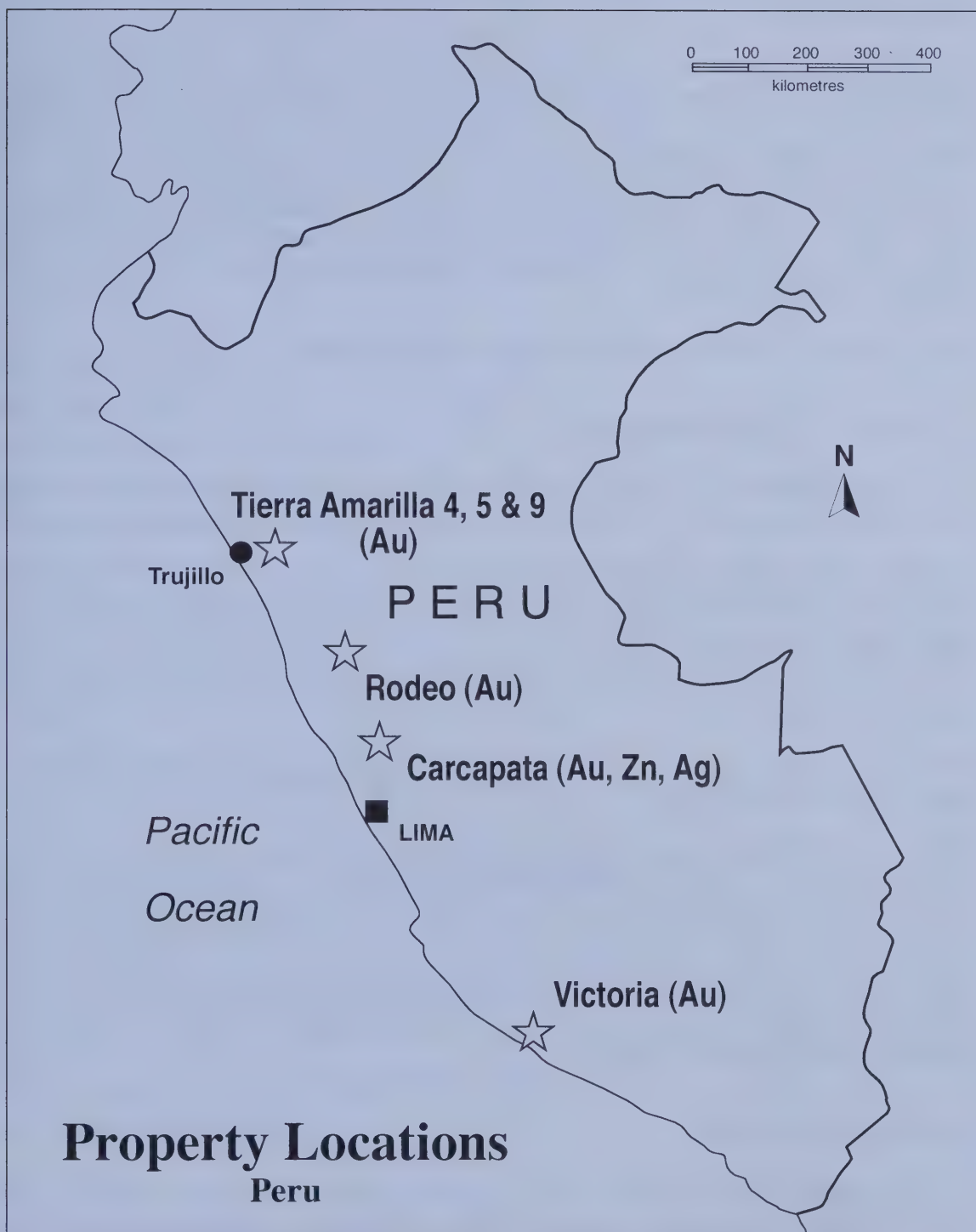
The property has very good exploration potential for the discovery of a bulk mineable disseminated gold-base metal deposit of porphyry or epithermal type. Previous exploration by Altai outlined a 2.5 km long 0.5 km wide zone of hydrothermal alteration which includes three closely spaced breccia pipes. Anomalous base metal and gold concentrations were found along the entire area of intensive hydrothermal alteration.

In the disseminated zone, up to 1.36 g/t gold, 0.18% zinc, 0.60% lead and 0.10% copper were detected. A channel sample of 20 m length averaged 0.46 g/t gold and 364 ppm copper. Samples taken from narrow quartz veins at the periphery of disseminated mineralization assayed up to 8 oz/t silver and 2.9 g/t gold.

In order to conserve working capital, the planned exploration program including geophysical survey was postponed. Further exploration of the property is conditional on improved metal prices and financing. Meanwhile Altai continues with its efforts to joint venture the property. However, due to industry wide cut backs in exploration budgets, suitable joint venture partners have not been found.

RODEO GOLD PROPERTY

This property is located in the department of Ancash along a paved highway and about 20 km South of the town of Huaraz. The property and the adjacent area is underlain by Calipuy Group volcanic rocks. The same type of



volcanic rocks hosts Barrick Gold Corporation's large, high grade Pierina gold mine which is located 25 km North of the property.

Altai has concluded an agreement with Minera ABX Exploraciones S.A. ("Barrick"), Barrick Gold Corporation's Peruvian subsidiary, for the latter to explore and develop the Rodeo property. The property will be held in a joint stock company which will be owned 85% by Barrick and 15% by Altai del Peru S.R.L. ("Altai Peru"), Altai's wholly owned subsidiary. To maintain its interest, Barrick must spend US\$ 1.5 million on or before July 1, 2003 on and for the property and make yearly cash payments increasing from US\$ 15,000 to US\$ 50,000 by July 1, 2003. Thereafter all expenditures, if any, will be made by Barrick; Altai Peru's 15% interest in the joint-stock company may not be diluted. Starting July 1, 2004 and if Barrick still maintains its interest in the joint stock company, Barrick will make yearly cash payments to Altai against possible future revenues of the joint stock company at US\$ 100,000 per year.

Barrick will start the exploration work on the property sometime in 1999.

VICTORIA 1 AND 2 GOLD PROPERTY

This property is located within the Caraveli gold mining camp about 50 km southeast of the town of Caraveli, in the Department of Arequipa. It is 100% owned by Altai and is subject to 1.5% net smelter royalty.

The past producing Eugenia Gold Mine is 2 km northwest of the property while the Oconia Gold Mine, which has been continuously mining narrow gold veins for 80 years, is located 4 km northeast of Victoria. The Victoria property has at least seven narrow high grade gold veins, some of them are more than 1 km long and have a vertical extent (exposed on hillsides) of up to 1,000 m or more. The average width of the veins is about 25-30 cm. In the 1970's, five of the veins were evaluated by the Mining Bank of Peru for the purpose of an operating loan to the owners at that time.

There are underground workings at three levels: drifts with a combined length of 285 m and a 48 m long raise connecting the 452 and 500 m levels.

Altai's sampling of outcrops and mine workings of the Sauce and Fortuna veins gave a range of assay values from 1.8 to 78 g/t gold and has average values of 16 and 12 g/t respectively. The historical exploration data available in the archives of the INGEMMET in Lima, Peru was examined by Altai. Ignoring a set of samples which gave very high and unreproducible assay results, the average grade of the two veins based on combined information from Altai, the Mining Bank of Peru and INGEMMET is 13.8 g/t gold for the Sauce vein and 17.1 g/t gold for the Fortuna Vein. Since the veins are narrow, a much higher gold price would be needed for a profitable mining operation. At the date of this annual report, gold price was about US\$280 per oz, near its 18 years low. Altai is considering sale or lease of the property.

OTHER PROPERTY IN PERU

The Carcapata gold and silver-base metal property is located 130 km northwest of Lima. The area is underlain by Calipuy Group volcanic rocks and associated intrusives which often host gold and silver-base metal deposits in Central and Northern Peru. The area adjacent to the property is being held by major Peruvian mining companies exploring for gold and silver.

**CONSOLIDATED BALANCE SHEET
AS AT DECEMBER 31, 1998**

ASSETS

	<u>1998</u>	<u>1997</u>
Current		
Cash	\$ 65,453	\$ 269,916
Marketable securities (Note 3)	250,087	283,478
Accounts receivable	2,944	7,205
Prepaid expenses	<u>-</u>	<u>4,045</u>
	<u>318,484</u>	<u>564,644</u>
Share investment (Note 4)	28,305	596,754
Note receivable (Note 5)	546,903	546,903
Investment in limited partnerships (Note 6)	25,165	-
Investment in subsidiaries (Note 7)	998,669	1,023,457
Interests in mining properties (Note 8)	2,122,817	2,091,653
Natural gas interest (Note 9)	975,507	999,303
Capital assets (Note 10)	<u>14,479</u>	<u>17,433</u>
	<u>\$ 5,030,329</u>	<u>\$ 5,840,147</u>

LIABILITIES

Current		
Accounts payable	<u>\$ 29,154</u>	<u>\$ 22,013</u>
Deferred taxes payable	<u>-</u>	<u>55,250</u>
	<u>29,154</u>	<u>77,263</u>

SHAREHOLDERS' EQUITY

Share capital (Note 11)	<u>7,525,775</u>	<u>7,525,775</u>
Deficit	<u>(2,524,600)</u>	<u>(1,762,891)</u>
	<u>5,001,175</u>	<u>5,762,884</u>
	<u>\$ 5,030,329</u>	<u>\$ 5,840,147</u>

The accompanying notes are an integral part of the financial statements.

Approved on behalf of the board:



Director



Director

**CONSOLIDATED STATEMENT OF OPERATIONS AND DEFICIT
FOR THE YEAR ENDED DECEMBER 31, 1998**

	<u>1998</u>	<u>1997</u>
Revenue		
Investment and miscellaneous income	\$ 40,609	\$ 98,685
Interest earned on note receivable (Note 12)	<u>124,905</u>	<u>105,862</u>
	<u>165,514</u>	<u>204,547</u>
Expenses		
Administrative expenses	127,619	288,497
Provision for doubtful accounts (Note 12)	124,905	105,862
Abandonment and write offs	84,727	82,720
Write down share investment	607,385	-
Prospecting and general	535	10,451
Amortization	<u>4,870</u>	<u>5,064</u>
	<u>950,041</u>	<u>492,594</u>
Net loss before share of net loss of equity investment	(784,527)	(288,047)
Share of net loss of equity investment	<u>(32,432)</u>	<u>(48,944)</u>
Net loss before provision for income taxes	(816,959)	(336,991)
Provision for income taxes - deferred	<u>(55,250)</u>	<u>(7,500)</u>
Net loss	<u>(761,709)</u>	(329,491)
Deficit, beginning of year	<u>(1,762,891)</u>	<u>(1,433,400)</u>
Deficit, end of year	<u>\$(2,524,600)</u>	<u>\$(1,762,891)</u>
Net loss per share (weighted average)	<u>\$ (0.056)</u>	<u>\$ (0.024)</u>

The accompanying notes are an integral part of the financial statements.

**CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 1998**

	<u>1998</u>	<u>1997</u>
Operating activities		
Net income (loss)	\$ (761,709)	\$ (329,491)
Items not affecting cash:		
Deferred income taxes	(55,250)	(7,500)
Share of net loss of equity investment	32,432	48,944
Abandonment and write offs	84,727	82,720
Write down share investment	607,385	-
Write off capital assets	2,333	-
Amortization	4,870	5,064
Unrealized exchange gain	(5,006)	(5,632)
Gain on sale of marketable securities	<u>(18,276)</u>	<u>(31,284)</u>
	(108,494)	(237,179)
Decrease (increase) in accounts receivable	4,261	17,260
Decrease (increase) in prepaid expenses	4,045	1,896
Increase (decrease) in accounts payable	<u>7,141</u>	<u>(75,694)</u>
Cash used in operating activities	<u>(93,047)</u>	<u>(293,717)</u>
Investing activities		
Deferred exploration expenditures	(115,015)	(179,837)
Proceeds on sale of marketable securities	56,673	117,882
Natural gas interest	23,796	21,222
Sale (purchase) of capital assets	(5,125)	691
Share investment	(38,936)	-
Investment in limited partnerships	(25,165)	-
Investment in subsidiaries	<u>(7,644)</u>	<u>(41,548)</u>
Cash used in investing activities	<u>(111,416)</u>	<u>(81,590)</u>
Financing activities		
Issue of shares	<u>-</u>	<u>11,730</u>
Change in cash	(204,463)	(363,577)
Cash, beginning of year	<u>269,916</u>	<u>633,493</u>
Cash, end of year	<u>\$ 65,453</u>	<u>\$ 269,916</u>

The accompanying notes are an integral part of the financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1998

1. Nature of operations

The Company has interests in mining properties which it is in the process of exploring and has not yet determined whether these properties contain reserves that are economically recoverable. The recoverability of expenditures on resource properties, including deferred exploration expenditures, is dependent upon the existence of economically recoverable mineral reserves, the ability of the Company to obtain necessary financing to complete the exploration and the development of the resource properties, and upon future profitable production or proceeds from the disposition thereof.

2. Summary of significant accounting policies

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries in Canada, Peru and the United States.

(b) Marketable securities

Marketable securities are carried at the lower of cost and market value.

(c) Interests in mining properties

Interests in mining properties and claims are stated at cost. Exploration expenditures relating to mining properties in which an interest is retained are deferred and are carried as an asset until the result of the projects are known. If a project is successful, the acquisition cost and related deferred exploration expenditures would be amortized by charges against income from future mining operations. If a project is unsuccessful or if exploration has ceased because continuation is not economically feasible, the cost of the property and the related exploration expenditures are written off.

Exploration expenditures, which are general in nature and cannot be associated with a specific group of mining claims, and general administrative expenses are written off in the year in which they are incurred.

(d) Natural gas interest

Natural gas interest is stated at cost and includes expenditures for carrying and retaining undeveloped properties.

(e) Capital assets

Capital assets are stated at cost less accumulated amortization. Amortization of capital assets have been provided in the accounts on the straight line basis at the following rates:

- Leasehold improvements - over the term of the lease
- Furniture and fixtures - over 5 years
- Computer equipment - over 3 years

(f) Foreign currency translation

Balances denominated in foreign currencies are translated into Canadian dollars as follows:

- i) monetary assets and liabilities at year end rates;
- ii) all other assets and liabilities at historical rates; and
- iii) revenue and expense transactions at the average rate of exchange prevailing during the year.

Exchange gains or losses arising on these transactions are reflected in income in the year incurred.

3. Marketable securities

The marketable securities on hand at December 31, 1998 had a market value of \$352,050 (1997 - \$387,420).

4. Share investment

The share investment represents 943,500 shares of Ace Developments Ltd. ("Ace") acquired on the sale of Oro Sunkwa Inc. The Company granted an option to three directors/ex-director of Ace to acquire all the shares held by the Company at \$1.00 per share at any time on or after December 30, 1997 and up to and including January 30, 1998. This option expired without being exercised. The Company was granted an option by these same directors/ex-director to require these directors/ex-director to purchase all the shares of Ace held by the Company at \$0.85 per share at any time on or after January 30, 1998 and up to and including February 28, 1998. On February 24, 1998 the Company exercised this option.

On February 10, 1998 the Company was served with a writ of summons by one of the three Ace directors/ex-director in the Option Agreement, with the latter's claim that the Option Agreement was void and unenforceable by the Company. In the Company's opinion the claim has no merit.

The Company is defending these actions and has filed a writ of summons against the three Ace directors/ex-director to fulfil the terms of the Option Agreement and against Ace for the value under the terms of the Option Agreement and against the three Ace directors/ex-director and Ace for damages, cost and interest.

At December 31, 1998, the shares had a market value of \$28,305.

5. Note receivable

The note receivable represents a promissory note due from Altai Philippines Mining Corporation ("Altai Philippines"). This note bears interest at the rate of 18% per annum compounded annually. Although this note has no fixed terms of repayment, Altai Philippines is required under the terms of its shareholders' agreement to use at least 60% of its operating income to first pay any and all loans and accrued interest due to the Company. The monies advanced under this promissory note were for the purposes of exploration and acquisition of properties by Altai Philippines.

6. Investment in limited partnerships

On July 31, 1998 the Company entered into an agreement to form limited partnerships (the Company being a limited partner) with aboriginal owned and controlled companies in Labrador. These limited partnerships will capitalize on major contracts, resource development and other opportunities in Labrador.

7. Investment in subsidiaries

The Company records its investment in the 40% owned subsidiary, Altai Philippines Mining Corporation, on the equity basis. Under this method, the Company reflects in earnings its proportionate share of the earnings (losses) of the subsidiary. The investment in the subsidiary is recorded at cost minus undistributed losses since inception.

	<u>1998</u>	<u>1997</u>
40% equity shares and investment expenses	\$ 1,081,203	\$ 1,073,559
Share of net losses to date	<u>(82,534)</u>	<u>(50,102)</u>
	<u>\$ 998,669</u>	<u>\$ 1,023,457</u>

The investment in the Company's wholly owned subsidiary, Compania Minera Carrera S.A., has been written down to a nominal value. The Company has abandoned all activities in Chile and currently retains no interest in any properties in the country.

8. Interests in resource properties

	<u>Balance, Beginning of Year</u>	<u>Expenditures</u>	<u>Write-off/ Disposition</u>	<u>Balance, End of Year</u>
Malartic Township, Quebec				
Property	\$ 279,961	\$ -	\$ -	\$ 279,961
Expenditures	717,785	5	-	717,790
Killala Township, Ontario				
Property	-	-	-	-
Expenditures	149,694	24	-	149,718
Victoria, Peru				
Property	-	-	-	-
Expenditures	465,066	38,048	-	503,114
Rio Colorado, Peru				
Property	-	-	-	-
Expenditures	60,127	(10,677)	49,450	-
Tierra Amarilla, Peru				
Property	-	-	-	-
Expenditures	62,123	26,618	-	88,741
Other Properties, Peru				
Property	-	-	-	-
Expenditures	243,192	61,005	20,760	283,437
Bayat, Turkey				
Property	62,618	-	-	62,618
Expenditures	37,069	-	-	37,069
Other Properties				
Property	-	-	-	-
Expenditures	14,018	868	14,517	369
Total Mining Properties				
Property	342,579	-	-	342,579
Expenditures	<u>1,749,074</u>	<u>115,891</u>	<u>84,727</u>	<u>1,780,238</u>
	<u>\$ 2,091,653</u>	<u>\$ 115,891</u>	<u>\$ 84,727</u>	<u>\$ 2,122,817</u>

Resource properties descriptions:

Malartic Township, Quebec

50% working interest in mining claims.

Killala Township, Ontario

100% interest in unpatented mining claims.

Bayat, Turkey

100% interest in an antimony property of 512 hectares (1,280 acres) in the Afyon Province, Turkey.

Victoria, Peru

100% interest in a gold property of 2 claims aggregating to 2,000 hectares (5,000 acres) in the Arequipa Province, Peru and subject to a 1.5% net smelter royalty.

Tierra Amarilla, Peru

100% interest in a gold property of 2,300 hectares (5,750 acres).

Other Properties, Peru

Two properties, 100% owned by Altai through claim staking, including 1 gold and 1 gold-silver-base metals properties.

Tassawini, Guyana

The Company retains a 10% net profits interest ("NPI") of Menora Resources Inc.'s ("Menora") share of the project. Menora can buy out the NPI by paying the Company US\$2,000,000 on or before March 6, 2000.

9. Natural gas interest

At the beginning of 1998, the Company owned 34.9% working interest in one of the four permits and one of the two reservoirs in a natural gas storage project comprising natural gas leases covering certain lands in the Sorel area of Quebec. In three of the four permits and one of the two reservoirs in the property Altai owned a 78.9% working interest at the beginning of 1998. At September 26, 1997, the working interest of Altai in the whole project was 48.9%. At December 31, 1998 this working interest remained at 48.9%. Menora Resources Inc. holds a 10% net profit interest participation in the Company's future share of net profits after payback from the project. Menora's participation is limited to the recovery of its investment carrying value of \$259,010.

In February 1997, an option agreement was signed between Altai Resources Inc. and its project partner, Petro St-Pierre Inc., and Great Legends Mining Inc. ("Great Legends") of Montreal to grant an option for Great Legends to earn 50% working interest in the property by spending \$3 million exploration-development expenditures and making cash payment of \$550,000 to the existing joint venture partners over four years.

Great Legends is in default of the option agreement. The Company will take steps to cancel the agreement.

10. Capital assets

	<u>1998</u>			<u>1997</u>
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>	<u>Net</u>
Furniture and equipment	\$ 39,368	\$ 27,248	\$ 12,120	\$ 15,839
Leasehold improvements	4,044	1,685	2,359	1,594
	<u>\$ 43,412</u>	<u>\$ 28,933</u>	<u>\$ 14,479</u>	<u>\$ 17,433</u>

11. Share capital

Authorized:

An unlimited number of common shares of no par value

Issued:

<u>No. of shares</u>	<u>Amount</u>
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Issued at December 31, 1997 and 1998

<u>13,546,167</u>	<u>\$7,525,775</u>
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- (a) At December 31, 1998 options were outstanding to directors, officers and employees pursuant to the Company's 1987 and 1996 incentive stock option plans to purchase 950,000 shares at prices ranging from \$0.47 to \$2.15 per share expiring at dates ranging from January 11, 1999 to August 26, 2000.

12. Interest earned from note receivable and provision for doubtful accounts

A provision for doubtful accounts has been made for the annual interest income of the note receivable from Altai Philippines as it has to date been unable to generate operating income (see Note 5) and accordingly has been unable to meet its interest obligations to the Company.

13. Related party transactions

Consulting services were provided by officers. Fees for such services amounted to \$105,000 (1997 - \$173,000).

14. Income taxes

The provision for income taxes is different from the amount that would have been computed by applying statutory federal and provincial rates due to the following:

	<u>1998</u>	<u>1997</u>
Statutory rate	22.34%	22.34%
Loss before income taxes	\$ (761,709)	\$ (329,491)
Provision for taxes	(55,250)	(7,500)
Amortization per statements	4,870	5,064
Abandonment and write offs	84,727	82,720
Write down share investment	607,385	-
Prospecting expenses	535	10,451

	<u>1998</u>	<u>1997</u>
Share of loss of equity investment	32,432	48,944
Non-taxed capital gains	(4,569)	(7,821)
Non-deductible losses of subsidiaries	5,386	8,800
Dividends	-	(16,424)
Capital cost allowance	<u>(3,681)</u>	<u>(5,164)</u>
Income (loss) for tax purposes	<u>\$ (89,874)</u>	<u>\$ (210,421)</u>

The Company has the following income tax losses and timing differences, the benefits of which have not been recognized in these financial statements.

Income tax losses by year of expiry:

2000	\$ 130,000
2001	214,000
2002	394,000
2003	295,000
2004	<u>115,000</u>
	<u>\$1,148,000</u>

15.The Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than the date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect the entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the company, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

16.Subsequent event

In January 1999 the Company concluded an agreement with Minera ABX Exploraciones S.A. ("Barrick"), Barrick Gold Corporation's Peruvian subsidiary, on the Rodeo property in Peru which is owned by Altai del Peru S.R.L. ("Altai del Peru"), the Company's wholly owned subsidiary. The agreement stipulates that the property will be held in a joint stock company which will be owned 85% by Barrick and 15% by Altai del Peru. To maintain its interest, Barrick must spend US\$1.5 million on or before July 1, 2003 on and for the property and make yearly cash payments to Altai totalling US\$130,000 by July 1, 2003. Thereafter all expenditures, if any, will be made by Barrick; Altai del Peru's 15% interest in the joint stock company may not be diluted. Starting July 1, 2004 and if Barrick still maintains its interest in the joint stock company, Barrick will make yearly cash payments to the Company against possible future revenues of the joint stock company at US\$100,000 per year.

Bolton & Bolton
Chartered Accountants
25 Oakcrest Avenue, Unionville, Ontario L3R 2B9

AUDITORS' REPORT

To the Shareholders of Altai Resources Inc.

We have audited the consolidated balance sheets of Altai Resources Inc. as at December 31, 1998 and 1997 and the consolidated statements of operations and deficit and changes in financial position for the years then ended. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1998 and 1997 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Bolton & Bolton

Chartered Accountants

Unionville, Ontario
March 9, 1999

**COMMENTS BY AUDITORS FOR U.S. READERS ON
CANADA - UNITED STATES REPORTING DIFFERENCES**

In the United States, reporting standards for auditors require the expression of a qualified opinion when the financial statements are affected by significant uncertainties such as those referred to in notes 1 and 2 to the financial statements. The opinion in our report to the shareholders dated March 9, 1999 is not qualified with respect to, and provides no reference to, these uncertainties since such an opinion would not be in accordance with Canadian reporting standards for auditors when the uncertainties are adequately disclosed in the financial statements.

Bolton & Bolton

Chartered Accountants

Unionville, Ontario
March 9, 1999

CORPORATE INFORMATION

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Dr. Andrew Szonyi
Maria Au
Babu Gajaria

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Dr. Arpad Farkas - VP, Exploration

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STOCK EXCHANGE LISTING: The Toronto Stock Exchange
Symbol: ATI

U.S.A.: SEC RULE 12g3-2(b) EXEMPTION NO.:
82-2950

